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Chile

Exporter Guide

2000

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Report Highlights:
This report provides practical tips to U.S. exporters of consumer-oriented foods/beverages on how to do business in Chile. It provides a brief overview of the food retail, food service, and food processing sectors.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Santiago [CI0011], CI

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SECTION I. MARKET OVERVIEW

Chile’s resource-based, export-led economy is expected to grow 5-6 % in 2000 after a slight downturn in 1999. However, a pickup in inflation to 3.5% during 2000 could soak up some of the increase in consumer buying power. Only about 4 million people out of Chile’s population of 14 million have sufficient disposable income to be considered potential consumers of imported, consumer-ready food products.

Consumer Demographics, 1997

Socio-economic Class	Family Income per month	Population (million)	Percent
Upper and Middle Classes	Over $1,000	4.3	30
Emerging Middle Class	$670 - $1,000	3.6	25
Poor	$200 - $670	5.0	35
Extreme Poverty	Less than $200	1.4	10
Total		14.3	100

Chile’s food retailers are expected to continue fighting for market share in a sluggish market by offering "everyday low prices" to shoppers. More new and larger stores will be constructed driving smaller retailers out of business. To survive, independents and small chains will join associations in order to negotiate lower prices from suppliers.

The restaurant sector, which is highly vulnerable to economic conditions, should recover as well in 2000 following a disastrous performance in 1998-1999. International fast food chains will continue to extend their reach beyond Santiago and its upper-class suburbs.

Food and beverage purchases are the largest single household expenditure.

Average Monthly Expenditures per Household in Santiago, 1997

Item	Dollars	Percent
Food and beverages	285	26.8
Transport and communications	166	15.6
Housing and utilities	149	14.0
Home maintenance and furnishings	96	9.4
Clothing	94	8.8
Education and school fees	63	5.9
Health care	59	5.5
Recreation	58	5.5
Other goods and services	91	8.5
Total	1,061	100.00

Source: National Institute of Statistics

During the 1990's, consumption of processed foods such as breakfast cereal, frozen vegetables, prepared frozen foods, ketchup, pet food, mayonnaise, and chocolate increased rapidly due to changing eating habits resulting from economic growth. Half of Chile's consumers buy seafood one or more times per week. The market for imported seafood, however, is extremely limited because 99 percent of the population lives within 80 miles of Chile's 4,000 mile coastline.

Products imported from the United States often pay a higher duty than products imported from U.S. competitors because Chile has negotiated free trade agreements with many of its trading partners in North and South America.

Average Duty Paid 1/

Country/Region of Origin	June 1998	June 1999
United States	8.7	8.4
Canada	2.2	2.0
Mexico	0.6	1.4
Mercosur 2/	4.9	4.5
Europe	9.7	9.6
Asia	9.0	9.0

1/ The average duty paid is for all imports, not just agricultural imports. Because information technology pays a lower duty, the average U.S. rate fell below the applied rate for all other products of 11 % in 1998 and 10 % in 1999.
2/ Includes Argentina, Brazil, Paraguay and Uruguay.

The table below identifies U.S. supplier strengths and market opportunities (**Advantages**) as well as U.S. supplier weaknesses and competitive threats (**Challenges**).

Advantages	Challenges
The U.S. can produce many niche products at low cost due to economies of scale.	The single most important factor influencing purchasing decisions is price.
Domestic transportation and communication systems are efficient in Chile.	U.S. products must pay higher import duties (9 %) than many competing products.
Regulations are transparent and enforcement is generally free of corruption.	Strict animal and plant quarantine regulations prohibit the import of numerous products.
Middle and upper class shoppers are much more apt to purchase prepared meals at supermarkets.	The most common worry of consumers is food spoilage; in particular, they are concerned about the expiration of shelf life.
25% of the most affluent shoppers look for variety and a wide selection of products.	U.S. products have no special cultural appeal compared to products from other countries.
The market for imported consumer foods is concentrated in Santiago, where 40% of the country's population lives.	Importers seldom have the ability to market full container shipments of consumer food products from the United States.
Supermarket chains are seeking suppliers of well-recognized, high sales volume products to expand their line of private label items.	Chile's domestic food processors have access to a wide range of low cost, locally produced ingredients.

SECTION II. EXPORTER BUSINESS TIPS

- # An importer/agent is becoming a necessity. Most supermarket chains prefer to buy new or less well known products from importer/distributors.
- # Budweiser beer, Edy's ice cream, Quaker cereals and Pringles chips have shown that U.S. products can fill gaps in the local market if supported on the ground. Budweiser is distributed by Chile's largest brewery; Edy's, Quaker, and Pringles have all used intensive sampling, in conjunction with prominent shelf space in supermarkets, to launch their products.
- # Agent/importers must also store imported products until they are tested, and released for sale and distribution by health officials of the region where the products are being stored.
- # The Ministry of Health periodically publishes changes to the food regulations in the Diario Oficial.
- # For livestock products, including dairy products, importers should check with the Ministry of Agriculture's livestock protection service (SAG) to find out: (1) if the item needs an import permit, and (2) if it must come from a processing plant which the Ministry has previously inspected.
- # Spanish labeling is a must.

Consumers are very brand oriented, but major supermarket chains are introducing private labels.
Sampling is usually required to introduce new products successfully.
Middle and upper class consumers generally steer clear of spicy, "ethnic" foods.
Consumers are not overly concerned about the health aspects of fat, cholesterol, and extensive processing.
Consumers relate expired shelf life to spoilage, which is one of their major concerns when shopping.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Chile has a modern, highly competitive supermarket sector with $4.5 billion in annual sales. The industry is dominated by Chilean-owned chains which are aggressively competing with each other for market share primarily by offering consumers low prices. Stores do not yet see the need to offer consumers a wider range of products. This could change within a few years as competition grows from Carrefour, which has now opened two stores in Santiago. Jumbo, Chile's fourth largest chain in terms of sales, currently offers the widest selection of products, including the greatest variety of imported products.

Market Share of Major Supermarket Chains, 1998

Chain	% Share
D&S (Econo, Lider, Almac)	22.5
Santa Isabel 1/	13.3
Unimarc	7.7
Jumbo	6.8
Cadesur 2/	6.2
M.A.S. 3/	4.1
Monserrat	3.4
Las Brisas 4/	3.0
Others	33.0

1/ Owned by Disco/Ahold.
2/ Cadesur (Cadena de sur) is an association of independent stores and small chains that offers a common private label and undertakes collective purchasing from suppliers.
3/ M.A.S. (Multi Alianza Supermercadista) consists of five medium-size chains, Agas, Ribeiro, La Bandera Azul, Las Brujas and Vyhmeister with centralized warehousing and distribution.
4/ Las Brisas is associated with Adelco, one of Chile's largest wholesaler/distributors.

The hotel, restaurant and institutional sector offers growing opportunities for selling processed products. In Chile, the main meal of the day is lunch. Reportedly, 80 percent of businesses provide their employees in-house food service or vouchers to eat at local restaurants. Mines and educational institutions are the leaders in offering meal benefits. As the economy grows and urban traffic becomes more congested, even fewer people will be able to go home for lunch.

Middle and upper class Chileans dine out at restaurants about twice a month on average. Higher wages for kitchen employees and stricter sanitation standards will encourage the industry to look for more pre-prepared or partially prepared products and products offering greater uniformity.

Currently, the HRI sector is divided between a small, but growing group of fast food chains and locally owned establishments, such as traditional restaurants, sandwich shops and cafeteria-style food service providers. Many of the fast food chains are multinationals which tend to import through buying offices in the United States. The local firms buy exclusively from local distributors. Therefore, to enter this market, a U.S. exporter must engage a local distributor and work closely with that firm in order to introduce new products to the restaurant industry.

Chile's food processing sector offers a some opportunity as a market for ingredients, especially products used by processed meat and confectionery manufacturers. Domestic industries generally rely on processing locally available agricultural products, including fruits, vegetables, meats and dairy products. Some multinationals, like Nestle, buy through their international purchasing offices.

Although Chile's tourist industry grew 5% in 1999 earning revenues of $1.1 billion, it offers few market opportunities for U.S. products. 65% of the visitors are Argentines who enjoy spending their vacations at Chile's many summer beach resorts, where restaurants often specialize in local seafood. Vacationers from North America, on the other hand, are primarily attracted to Chile by its many opportunities for ecotourism. In keeping with this theme, hotels and lodges in the national parks tend to serve locally grown foods in season. Santiago's hotels catering to an international business clientele and Chile's world famous ski resorts cannot serve U.S. beef because of Chile's unique grading and labeling regulations and plant inspection requirements. U.S. wines cannot compete on price with local wines.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

1. Snack foods.
2. High energy nutritional snacks for sports.
3. Frozen bread products.
4. Frozen prepared dinner entrees.
5. Edible nuts (almonds, pistachios, and mixed nuts).
6. Specialty pet foods (other than dry dog food).

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Mailing Address:
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Web Sites:
http://www.usembassy.cl; U.S. Embassy Santiago homepage. First look under *"Food and Agricultural Affairs,"* then click on *"Chile's Market"* for research reports, statistics, and contacts in Chile.
http://www.fas.usda.gov; Foreign Agricultural Service homepage.

Technical Reports:

A Food and Agricultural Import Regulations and Standards (FAIRS) Report for Chile is available [CI 9044] on both the U.S. Embassy web site and the FAS web site.

Chile's Food Sanitation Regulations are available in Spanish (official) and English (unofficial translation) on the U.S. Embassy web site.

APPENDIX:

Table A: Key Trade & Demographic Information

Agricultural Imports From All Countries ($Mil)/U.S. Market Share (%)	1998	1,319/12
Consumer Food Imports From All Countries ($Mil)/U.S. Market Share (%)	1998	500/10
Edible Fishery Imports From All Countries ($Mil)/U.S. Market Share(%)	1998	29/0
Total Population (Millions)/Annual Growth Rate (%)	1998	14.2/1.4
Urban Population (Millions)/Annual Growth Rate (%)	1998	12.6/1.6
Number of Major Metropolitan Areas 1/	1998	3
Size of the Middle and Upper Classes (Millions)/Growth Rate (%) 2/	1997	4.3/5
Per Capita Gross Domestic Product (U.S. Dollars)	2000	4,580
Unemployment Rate (%)	2000	8
Annual Food Expenditures Per Household in Santiago (U.S. Dollars)	1997	285
Percent of Female Population Employed Outside the Home	1997	35
Exchange Rate (US$1= pesos)	2/2000	510

1/ Population in excess of 1,000,000.
2/ Family income more than US$ 12,000.

Table B: Consumer Food & Edible Fishery Product Imports

Chile Imports (In Millions of Dollars)	Imports from the World			Imports from the U.S.			U.S Market Share		
	1996	1997	1998	1996	1997	1998	1996	1997	1998
CONSUMER-ORIENTED AG TOTAL	431	473	500	41	43	48	9	9	10
Snack Foods (Excl. Nuts)	32	37	39	3	4	3	10	9	8
Breakfast Cereals & Pancake Mix	4	5	5	1	2	2	41	39	32
Red Meats, Fresh/Chilled/Frozen	144	188	175	1	1	1	1	0	0
Red Meats, Prepared/Preserved	5	6	7	1	1	1	11	10	10
Poultry Meat	1	1	1	1	0	1	100	0	36
Dairy Products (Excl. Cheese)	65	30	40	2	2	4	3	7	10
Cheese	14	16	13	1	1	2	5	7	12
Eggs & Products	1	1	2	1	1	1	44	49	12
Fresh Fruit	40	41	42	1	1	1	0	1	2
Fresh Vegetables	1	1	2	1	1	1	15	14	0
Processed Fruit & Vegetables	28	34	41	9	8	8	33	25	19
Fruit & Vegetable Juices	12	11	9	1	1	1	11	10	7
Tree Nuts	2	2	3	1	1	2	10	15	60
Wine & Beer	7	16	17	1	3	2	20	20	14
Nursery Products & Cut Flowers	3	4	4	1	1	1	7	6	7
Pet Foods (Dog & Cat Food)	10	15	22	8	9	10	82	59	43
Other Consumer-Oriented Products	65	66	79	11	11	13	18	16	16
FISH & SEAFOOD PRODUCTS	35	34	29	2	1	1	4	1	0
Salmon	1	1	1	0	1	1	0	50	50
Surimi	1	1	1	1	1	1	8	6	1
Crustaceans	3	5	4	1	1	1	1	0	0
Groundfish & Flatfish	13	6	1	1	1	1	11	0	3
Molluscs	1	1	1	1	1	1	1	3	2
Other Fishery Products	19	21	23	1	1	1	1	1	0
AGRICULTURAL PRODUCTS TOTAL	1,290	1,297	1,319	141	140	162	11	11	12
AG, FISH & FORESTRY TOTAL	1,361	1,379	1,398	151	151	173	11	11	12

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

Table C: Top 15 Suppliers of Consumer Foods & Edible Fishery Products

Chile

Consumer-oriented Agricultural Imports

($1,000)	1996	1997	1998
Argentina	164,276	191,346	163,068
United States	40,639	43,401	47,581
Ecuador	40,546	41,933	43,639
Paraguay	14,788	25,049	42,785
Uruguay	10,290	21,800	34,504
Brazil	10,529	12,903	18,214
New Zealand	33,729	28,660	16,443
Spain	6,459	8,788	13,127
Netherlands	8,177	9,986	12,604
Mexico	7,459	12,866	11,593
Canada	8,017	8,384	9,563
Ireland	13,461	8,923	8,466
Germany	6,617	5,368	8,267
Peru	1,893	3,085	6,773
Belgium	10,060	3,864	6,761
Other	54,348	46,401	56,543
World	431,308	472,774	499,952

Fish & Seafood Product Imports

($1,000)	1996	1997	1998
Ecuador	13,488	16,817	18,764
Thailand	3,009	2,315	2,105
Spain	641	2,112	2,077
Argentina	11,739	4,880	1,429
Uruguay	434	1,187	868
United Kingdom	477	379	734
Peru	1,953	1,859	716
Morocco	239	573	557
Venezuela	80	214	302
Norway	12	388	201
Japan	147	100	189
Canada	0	109	188
Areas NES	182	359	187
Colombia	0	62	160
United States	1,593	187	136
Other	1,408	1,963	292
World	35,405	33,506	28,912

Source: United Nations Statistics Division